

Request For Clarification Of Auditing Procedure Of Weekly And Monthly Nonfat Dry Milk Sales Reports

This inquiry is submitted on behalf of Milk Producers Council, in regard to the proposal to use the NASS survey of nonfat dry milk sales in California milk price formulas rather than the California Weighted Average Price survey.

On August 30, 2007, Mr. Hyrum Doegey submitted a letter to Micheal Cleary, Hearing Officer, CDFA, which responded to questions raised in a public hearing held on August 28, 2007, regarding auditing procedures pertaining to weekly and monthly reports of sales of nonfat dry milk by California plants. The following questions are for clarification of some of the points contained in Mr. Doegey's report.

1. Are discrepancies in volumes or prices in the sales reports that are found through audits or other means corrected? If so, how and when are the corrections reported?

Answer: Yes, discrepancies are corrected as soon as possible. If any errors are found in the weekly review and monthly audit it is brought to the attention of the party submitting the sales. The error is corrected and reports are re-submitted before the weekly and monthly reports are finalized.

2. How and when are payments for reported sales verified?

Answer: A Dairy Marketing Branch auditor reviews and verifies the company's sales reports and corresponding invoices before the last working day of each calendar month.

3. How long does CDFA keep copies of the verification of payments?

Answer: CDFA keeps a record of their payment verification audit for three years. CDFA does not make a copy of company's invoices. This policy ensures that a company's confidential sales records are not released to the public via a public information request. Companies are required to keep records for 3 years.

4. Without a review being made of general ledgers, inventories, or other financial records of the plants or other reporting agencies, how does CDFA verify that all sales that should be reported are reported?

Answer: All Plants that produce NFDM submit a monthly production report to the Dairy Marketing Branch Statistics Unit. The sales volume of NFDM for each plant is measured against NFDM produced as reported to the Statistics Unit. The Dairy Marketing staff audit the reported sales against the plant's monthly production and inventory to determine that sales are in alignment.

Our records reflect thus far in 2009 NFDM sales (for Human Consumption) is 98 percent of the state's total production.

5. Is CDFA notified during the audit or elsewhere on how many deliveries of products are not reported because the plant cannot separate the delivery cost from their delivered price? Does CDFA have a record of those deliveries? Are attempts made to minimize these occurrences?

Answer: We have never seen an instance that a company could not separate the delivery cost from the delivered price. If a plant is unable to separate the delivery cost then the sale will not be included in the monthly calculation.

6. How soon after a monthly report is submitted is the visit to the plant or other reporting agency

typically made? Does the 90 to 100 percent record of audited sales, cited in 2007, still hold?

Answer: All major plants are audited by the last day of the month prior to the price letter being released. In 2009, at least 95 percent of the powder sales have been audited prior to issuance of the monthly report. In addition 100 percent of all companies that regularly produce and sell powder are audited on a quarterly basis.

7. Without a review of general ledgers or other financial records, how does CDFA verify there is no financial dealing between a seller and a broker or buyer related to sales of nonfat dry milk that could affect the completeness and accuracy of the report submitted by the seller to CDFA?

Answer: By reviewing all invoices and identifying sales customers to ensure compliance. The department has a long standing policy that only sales involving objective third parties are included. Any sales between companies that have a business relationship with each other are excluded. Company sales between or among its members or business affiliates are also excluded.